CORPORATION FILE

R. J. REYNOLDS TOBACCO COMPANY

ANNUAL REPORT

1960

CONTENTS

	PAGE
COMPARATIVE SUMMARY	2
LETTER TO STOCKHOLDERS	3
FINANCIAL REVIEW	4
MARKETING	7
WEST GERMANY	9
PRODUCTS	10
BUILDING PROGRAM	13
10 YEAR RECORD	14
FINANCIAL STATEMENTS	16
REPORT OF INDEPENDENT ACCOUNTANTS	19
DIRECTORS AND OFFICERS	20

ANNUAL REPORT

TO THE STOCKHOLDERS OF

R. J. REYNOLDS TOBACCO COMPANY

WINSTON-SALEM, NORTH CAROLINA

1960

COMPARATIVE SUMMARY

SALES, EARNINGS AND DIVIDENDS	1960	1959
Net Sales	$1,418,260,858	$1,286,855,943
Net Earnings	105,258,511	90,357,655
Net Earnings as a percentage of Net Sales	7.42%	7.02%
Earnings per share on Common Stock *before* taxes on income	$ 11.03	$ 9.82
Taxes on income per share of Common Stock	5.98	5.37
Net Earnings per share of Common Stock:		
For the year's operations	5.05	4.45
Credit resulting from settlement of income tax liabilities for prior years	0.16	—
Total	5.21	4.45
Dividends per share on Common Stock	2.40	2.10
Dividends on Preferred Stock	1,126,226	1,280,513
Dividends on Common Stock	48,000,000	41,999,923
FINANCIAL POSITION AND EQUITIES AT YEAR END		
Total Assets	$ 947,258,414	$ 853,351,560
Current Assets	823,089,063	756,146,800
Current Liabilities	325,342,913	277,744,015
Net Current Assets—Working Capital	497,746,150	478,402,785
Real Estate, Machinery and Equipment—net	110,724,071	94,290,689
Funded Debt	86,000,000	92,000,000
Equity of holders of Preferred Stock	29,510,800	34,076,800
Equity of holders of Common Stock	506,404,701	449,530,745
Number of stockholders at year end	81,856	81,063
Number of regular employees at year end	14,705	14,084

R. J. REYNOLDS TOBACCO COMPANY

TO THE STOCKHOLDERS

During 1960 new highs were achieved by the Company in net earnings, sales and dividend payments. Compared with 1959, the previous record year, net earnings were up 16.5% and sales were 10.2% greater. For the seventh consecutive year dividends on the Common Stock were increased, the quarterly rate paid in September and December being raised to 65 cents a share.

The number of cigarettes sold by the Company also reached a new high. Despite the continuing decline in demand for regular-size, non-filter brands, CAMEL Cigarettes gained in volume and remain the leader in this category. WINSTON Cigarettes had a substantial increase, maintaining their position as the country's largest selling filter brand. SALEM Cigarettes sales gained very materially, further strengthening their position as the country's leading menthol-flavored cigarette.

The sales volume of PRINCE ALBERT and CARTER HALL Smoking Tobaccos also increased. Over-all, however, there was a decline in the Company's total smoking tobacco and chewing tobacco business. PRINCE ALBERT Smoking Tobacco and DAYS WORK Chewing Tobacco continue as the country's largest selling brands in their respective fields.

Last March a subsidiary of the Company, Reynolds-Neuerburg G.m.b.H., for approximately $10,200,000 acquired 51% interest in Zigarettenfabrik Haus Neuerburg K.G., one of the leading cigarette manufacturing concerns in West Germany. This move enables the Company to have an interest in the rapidly expanding cigarette market in West Germany as well as a foothold in the European Common Market. Reynolds-Neuerburg G.m.b.H. is wholly owned by Reynolds Tobacco Limited, which in turn is wholly owned by the Company. The financial statements of these companies have not been consolidated with those of the Company.

At the end of the year the Company had 14,705 regular and 3,302 seasonal employees. Of the regular employees 4,186 had been with the Company for 20 or more years. The diligence, cooperation, and loyal interest of employees at all levels made possible the Company's achievements in 1960. The management looks forward to the continuation of this same fine spirit and to further progress in the Company's business.

For the entire organization appreciation is expressed to the share owners for their continuing confidence and helpful interest.

Respectfully submitted for the Board of Directors,

Chairman, Board of Directors

President

January 28, 1961

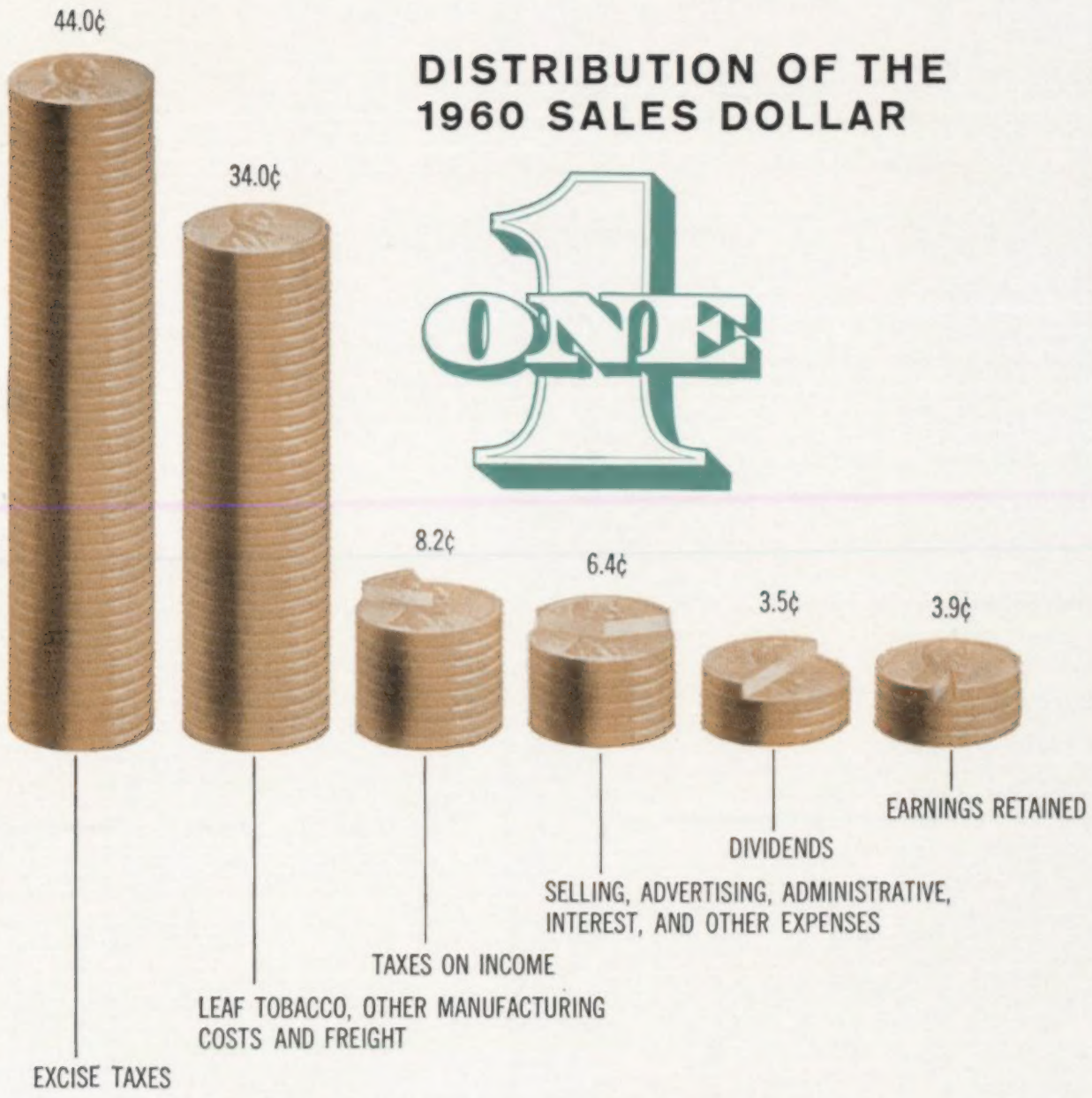
FINANCIAL REVIEW

Sales in 1960 were $1,418,260,858, an increase of $131,404,915 over 1959. Net earnings were $105,258,511, or $14,900,856 greater than in the previous year. Earnings in 1960 included $3,198,466 which resulted from the reduction in tax reserves made possible by settlement with the Internal Revenue Service of claimed deficiencies in the Company's federal income tax liabilities for the period 1951 through 1956.

After payment of dividends on the Preferred Stock, 3.60% Series, net earnings amounted to $5.21 a share in 1960, including 16 cents a share due to the tax settlement, compared with $4.45 a share in 1959.

Dividends paid amounted to $48,000,000 on the Common Stock and $1,126,226 on the Preferred Stock, a total of $49,126,226, the largest dividend disbursement for any year in the Company's history. Common Stock dividends were $2.40 a share as against $2.10 in 1959. On the basis of the present Common Stock the quarterly dividend rate in 1953 was 25 cents. Since then the quarterly rates have been increased as follows: First Quarter, 1954 – 30 cents; Third Quarter, 1955 – 35 cents; Second Quarter, 1956 – 40 cents;

DISTRIBUTION OF THE 1960 SALES DOLLAR

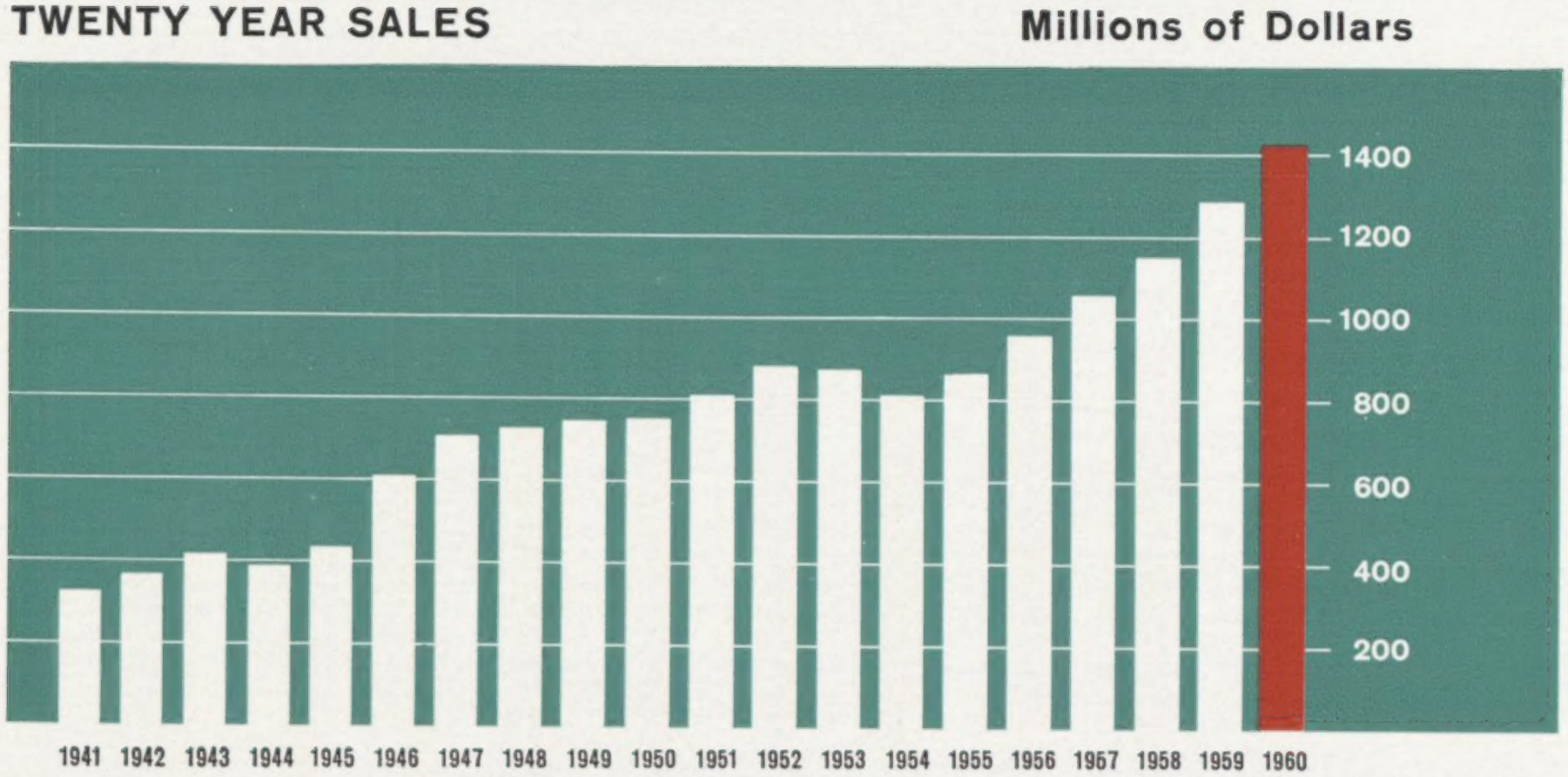


Disposition of 1960 Net Earnings

Dividends Paid	$ 49,126,226
Purchase of Preferred Stock, 3.60% Series	3,824,329
Reduction in Funded Debt	6,000,000
Net Addition to Plant and Equipment	16,433,382
Increase in Working Capital	19,343,365
Increase in Other Assets	10,531,209
Total—Net Earnings for 1960	$105,258,511

Computation of Increase in Working Capital

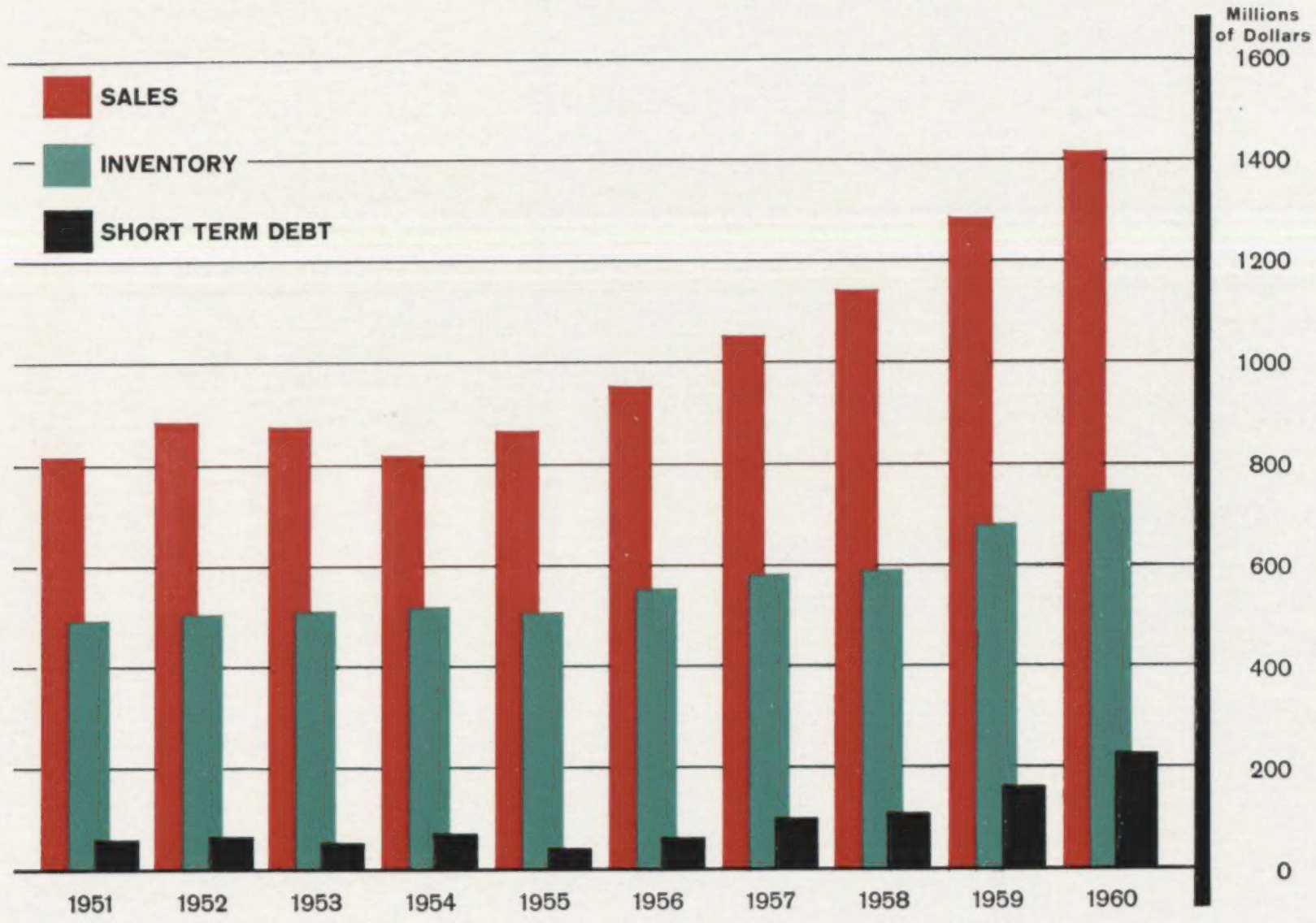
Increase in Inventories	$ 58,827,759
Increase in Cash and Receivables	8,114,504
Increase in Current Assets	$ 66,942,263
Less Increase in Current Liabilities	47,598,898
Increase in Working Capital	$ 19,343,365



Fourth Quarter, 1957 – 45 cents; Fourth Quarter, 1958 – 50 cents; Third Quarter, 1959 – 55 cents; Third Quarter, 1960 – 65 cents.

At the year end, short-term borrowings stood at $216,270,000, up $58,120,000 compared with such loans at the close of the previous year. This increase was due to the greater inventory of leaf tobacco required for the Company's expanding business. As of December 31, 1960, the Company's inventories of all kinds amounted to $743,335,117, or $58,827,759 more than a year earlier. The increase in leaf tobacco inventories resulted not only from greater quantities on hand but also higher prices paid. Auction purchases by the Company from the 1960 flue-cured and burley tobacco crops were made at the highest average prices in the Company's history. In some years the Company has been able to eliminate short-term borrowings in the summer months before large buying of the current tobacco crop commences. In recent years, due to the necessity of increasing inventories for the Company's growing business, complete elimination has not been possible. However, it is anticipated that in the late summer of 1961 the Company's short-term loans will be greatly reduced from their year end level.

Due to larger short-term borrowings and higher interest rates thereon, interest and debt expense amounted to $8,516,573 compared with $6,663,692 for 1959.



During 1960 the Company paid $5,681,013 to the trustee under the Employees' Retirement Plan. This included $2,430,429 for prior service benefits, resulting in such benefits becoming fully funded. Under the Company's Profit Sharing Plan, established in 1956, the amount payable for 1960 to the trustee thereunder for credit to the accounts of the 11,057 officers and employees entitled to participate for the year was $8,328,121.

The charge to earnings for the year on account of depreciation was $10,078,976. After deduction of this amount, as well as adjustments for disposals, at the year end the Company's net account for real estate, machinery and equipment stood at $110,724,071, an increase of $16,433,382 for the year.

In 1960 the Company's long-term or funded debt was reduced by $6,000,000. During the year the Company increased its holdings in its Preferred Stock, 3.60% Series by acquiring 45,660 shares, having a total par value of $4,566,000, for $3,824,329.

During the last five years the Company has increased its net account for real estate, machinery and equipment by $69,237,920, its working capital by $52,450,134 and its investments in subsidiaries by $10,889,441. During this period long-term or funded debt was reduced by $29,000,000 and $38,802,417 was spent for the retirement and acquisition of Preferred Stock.

MARKETING

Constant improvement of the total marketing program has contributed to the continuing growth of Company brands and the steady strengthening of the Company's position as leader in the industry.

The intense competition of the tobacco industry demands persistent refining of our marketing techniques and systematic development of new and more efficient methods. Comprehensive research is required to predict and capitalize upon changes in consumer tastes and buying habits.

Throughout the nation and in many foreign countries, our Company's sales representatives carry on merchandising activities designed to make our various brands easy for consumers to see and buy. Changing patterns in retailing practices must be anticipated so that the Company can offer pre-tested merchandising assistance to help promote its brands.

Aggressive advertising support throughout the year contributed substantially to the achievement of the new sales record for the Company.

As in the past, the Company centered its advertising themes on the greater smoking enjoyment provided by its brands. CAMEL Cigarettes were intensively promoted by the theme, "The Best Tobacco Makes The Best Smoke. Have a

Extensive full-color advertising in newspapers and magazines helped to promote the Company's products.

"I'VE GOT A SECRET"
Garry Moore

"MAVERICK"
Jack Kelly & Roger Moore

"LAWMAN"
John Russell & Peter Brown

"KLONDIKE"
Ralph Taeger

"FLINTSTONES"

"WAGON TRAIN"
Ward Bond & Robert Horton

"TALL MAN"
Barry Sullivan & Clu Gulager

"WITNESS"

"CHEYENNE"
Clint Walker, Ty Hardin
& Will Hutchins

"77 SUNSET STRIP"
Efrem Zimbalist, Jr., Edd Byrnes,
Roger Smith, Richard Long

"LARAMIE"
Robert Fuller & John Smith

"PETER GUNN"
Craig Stevens

Popular network television programs carried selling messages throughout the nation.

Real Cigarette, Have a CAMEL!" Effective results were obtained for WINSTON through continued emphasis on "*Filter-Blend* Up Front, Ahead Of The Filter, Where Flavorful Filter Smoking Begins." SALEM Cigarettes combined the successful themes of springtime freshness and special High Porosity paper in the message, "SALEM Refreshes Your Taste – *Air-Softens* Every Puff." Appropriate themes also promoted PRINCE ALBERT and CARTER HALL Smoking Tobaccos.

Various means were used to deliver these selling messages to prospective consumers with proper frequency and impact. Strong support on a national basis was provided by a number of popular network television programs. In addition, TV spot announcements and local syndicated shows were used in many cities to meet specific marketing conditions. Effective radio advertising was delivered by spot announcements over local stations, as well as by schedules on network programs. The Company's products were displayed in full color in general-interest magazines and in many edited for specialized reader groups.

Greatly expanded use in daily newspapers was made of full-color advertising, a relatively new national medium. Series of these advertisements for CAMEL, WINSTON and SALEM were run throughout the country in a large number of such newspapers.

Through foreign distributors, the Company's products were widely advertised overseas, resulting in added prestige and consumer demand throughout the world.

WEST GERMANY

Zigarettenfabrik Haus Neuerburg K.G., in which the Company's subsidiary Reynolds-Neuerburg G.m.b.H. has controlling interest, has its administrative offices in Cologne and manufacturing plants located in Trier, Baden-Baden and West Berlin. It employs about 1,800 persons.

One of the Neuerburg brands, OVERSTOLZ, for many years has been among the largest selling non-filter brands on the West German market. The Neuerburg brands also include, among others, BATSCHARI, GULDENRING and MERCEDES. Recently a new filter cigarette, ROYAL STAR, has been developed and is now being market-tested in the Munich and Hanover areas.

Intensive efforts are under way to increase Neuerburg's sales both in and outside of Germany. The working relationship between the Company and Haus Neuerburg, which is being developed through frequent visits of technicians and other specialists, promises to be of benefit to both organizations.

Zigarettenfabrik Haus Neuerburg K.G. operations are reviewed by Executive Vice President S. B. Hanes, Jr., Mr. Gottfried Neuerburg and Mr. Helmut Neuerburg, two managers of the German company, and President A. H. Galloway.

Main office at Cologne

Trier factory

Baden-Baden factory

West Berlin factory

PRODUCTS

CIGARETTES

CAMEL
WINSTON
SALEM
CAVALIER

SMOKING TOBACCOS

PRINCE ALBERT
GEORGE WASHINGTON
CARTER HALL
OUR ADVERTISER
TOP
STUD

PRINCIPAL BRANDS OF CHEWING TOBACCO

DAYS WORK
BROWN'S MULE
APPLE SUN CURED
REYNOLDS' NATURAL LEAF

ARCHER ALUMINUM DIVISION

FOIL PRODUCTS
PACKAGING MATERIALS

1

2

3

BUILDING PROGRAM

Steady growth of the Company's business has brought a continuing need to expand manufacturing, processing and leaf storage facilities.

For the fourth straight year the Company has carried forward an extensive program to modernize and expand its facilities for the processing and storing of leaf tobacco, the manufacture of cigarettes, and the processing of aluminum foil. Over the last four years, expenditures for this purpose have amounted to $100,127,737, of which $26,778,097 was spent in 1960. The 1961 total is expected to be about $22,000,000.

Construction of the new cigarette factory at Whitaker Park, Winston-Salem, has proceeded according to the anticipated schedule. The first production unit is expected to start operations in the late spring of 1961. Present plans call for the manufacture of both regular and filter cigarettes at Whitaker Park. Upon completion of the new factory, the Company's cigarette manufacturing capacity will be increased by about one-third.

The Company's engineering department has been responsible for the design, engineering and erection of the new factory, the largest construction project ever undertaken by the Company's own forces. The construction of a new plant to produce steam for use in processing tobacco and in heating and air conditioning the new cigarette factory is also proceeding on schedule.

At the Company's leaf processing and storage facility at Brook Cove, North Carolina, eight new leaf tobacco storage warehouses are being erected. Their completion will make a total of fifty-six storage warehouses at Brook Cove, with capacity for about 300,000,000 pounds of leaf tobacco.

The addition to the plant of the Archer Aluminum Division was finished during the year and is in operation with satisfactory results. The new facilities enable Archer to produce its own aluminum sheet from ingot aluminum.

1. Entrance approach to new Whitaker Park plant to be completed in 1961.
2. Storage warehouses, redrying and stemming plant, Lexington, Kentucky.
3. Archer Aluminum plant at Winston-Salem was enlarged in 1960.

Background shows storage, redrying and stemming facilities at Brook Cove, N. C.

R. J. REYNOLDS TOBACCO COMPANY

10 YEAR RECORD

CONDENSED COMPARATIVE

	1960†	1959†	1958†	1957†	1956
SALES, EARNINGS AND DIVIDENDS (amounts in thousands of dollars)					
Net Sales	$1,418,261	$1,286,856	$1,146,559	$1,053,326	$957,367
Income before taxes	221,730	197,770	171,984	138,606	137,103
Federal and state taxes on income	119,670	107,412	93,658	74,446	75,190
Net Earnings	105,258*	90,358	78,326	64,160	61,913
Dividends on Preferred Stock	1,126	1,280	2,282	2,657	2,763
Dividends on Common Stock	48,000	42,000	36,966	32,718	30,707
FINANCIAL POSITION AND EQUITIES (amounts in thousands of dollars)					
Current Assets	$ 823,089	$ 756,147	$ 661,542	$ 646,593	$611,100
Federal and state tax liabilities	78,348	87,619	75,002	63,744	71,202
Other current liabilities	246,995	190,125	131,180	116,241	76,363
Working Capital	497,746	478,403	455,360	466,608	463,535
Real Estate, Machinery and Equipment—net	110,724	94,291	78,876	63,557	45,012
Total Assets	947,258	853,352	743,333	713,097	659,394
Funded Debt	86,000	92,000	98,000	104,000	110,000
Equity of holders of Preferred Stock	29,511	34,077	37,285	66,572	68,483
Equity of holders of Common Stock	506,405	449,531	401,866	362,540	333,346
FINANCIAL STATISTICS (Based on 20,000,000 shares. Years prior to 1959 adjusted for the 2-for-1 stock split in that year.)					
Income taxes per share of Common Stock	$ 5.98	$ 5.37	$ 4.68	$ 3.72	$ 3.76
Earnings per share on Common Stock	5.21**	4.45	3.80	3.08	2.96
Dividends per share on Common Stock	2.40	2.10	1.85	1.65	1.55
Book value per share of Common Stock	25.32	22.48	20.09	18.13	16.67

†Effective with 1957, the Company adopted the LIFO method of pricing inventories instead of the average cost method used in previous years.

*Includes credit of $3,198,466 resulting from settlement of income tax liabilities for prior years.

**Includes $0.16 per share credit resulting from settlement of income tax liabilities for prior years.

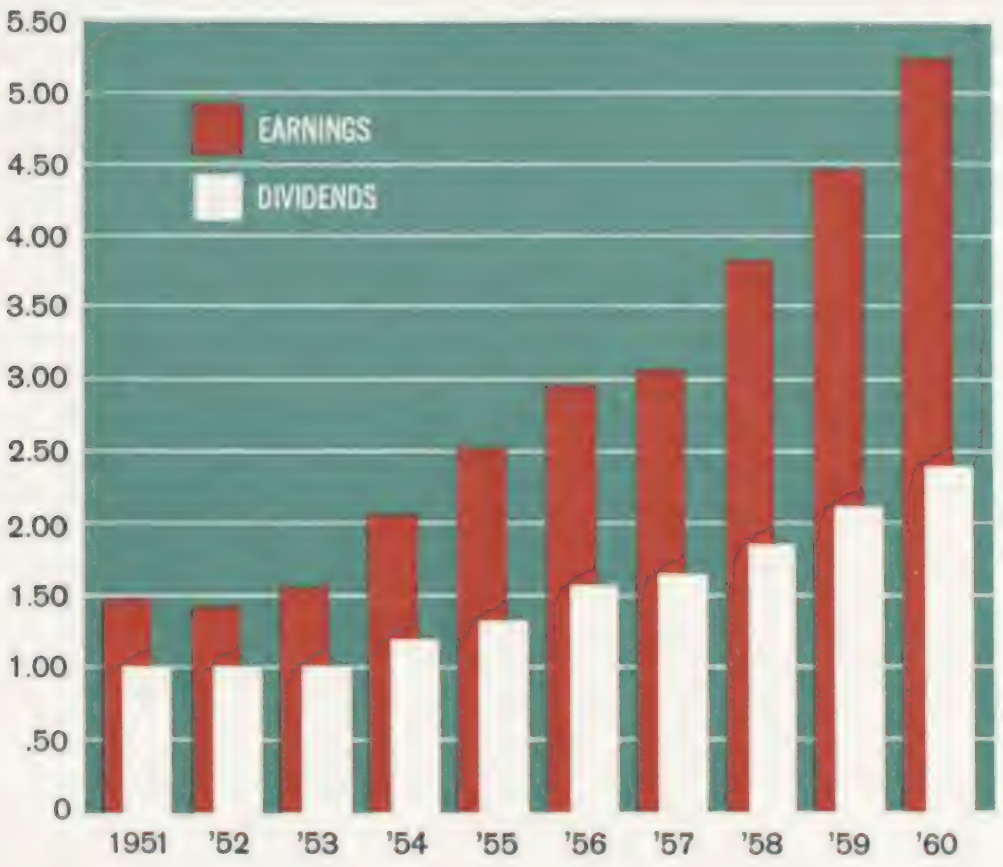
FINANCIAL DATA

YEAR ENDED DECEMBER 31

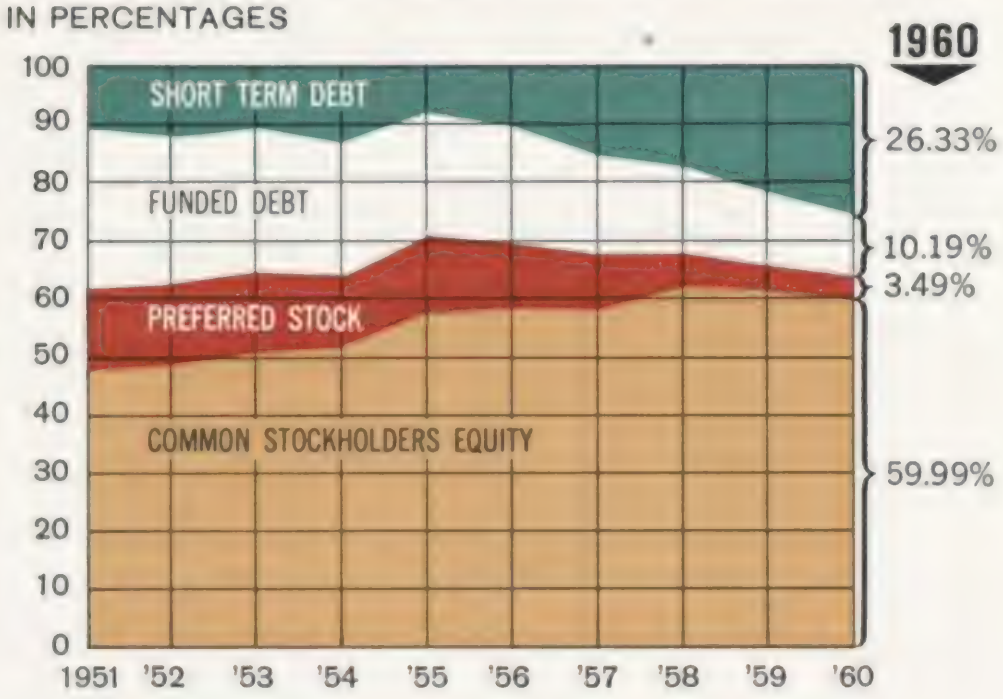
1955	1954	1953	1952	1951
$866,426	$814,274	$876,189	$881,424	$814,217
121,268	103,343	102,873	95,514	92,177
68,000	58,516	68,701	63,565	60,060
53,268	44,827	34,172	31,949	32,117
2,794	2,894	2,934	2,934	2,934
25,737	23,732	19,756	19,723	19,715
$566,735	$574,025	$558,394	$553,200	$540,646
69,574	62,279	71,513	65,237	60,594
51,865	82,593	66,189	71,979	67,158
445,296	429,153	420,692	415,984	412,894
41,486	40,259	36,395	34,551	32,751
611,641	617,636	598,609	591,641	577,886
115,000	120,000	125,000	130,000	135,000
70,686	73,377	75,000	75,000	75,000
304,516	279,386	260,907	249,425	240,133
$ 3.40	$ 2.93	$ 3.44	$ 3.18	$ 3.00
2.52	2.10	1.56	1.45	1.46
1.30	1.20	1.00	1.00	1.00
15.23	13.97	13.05	12.47	12.01

EARNINGS AND DIVIDENDS PER COMMON SHARE

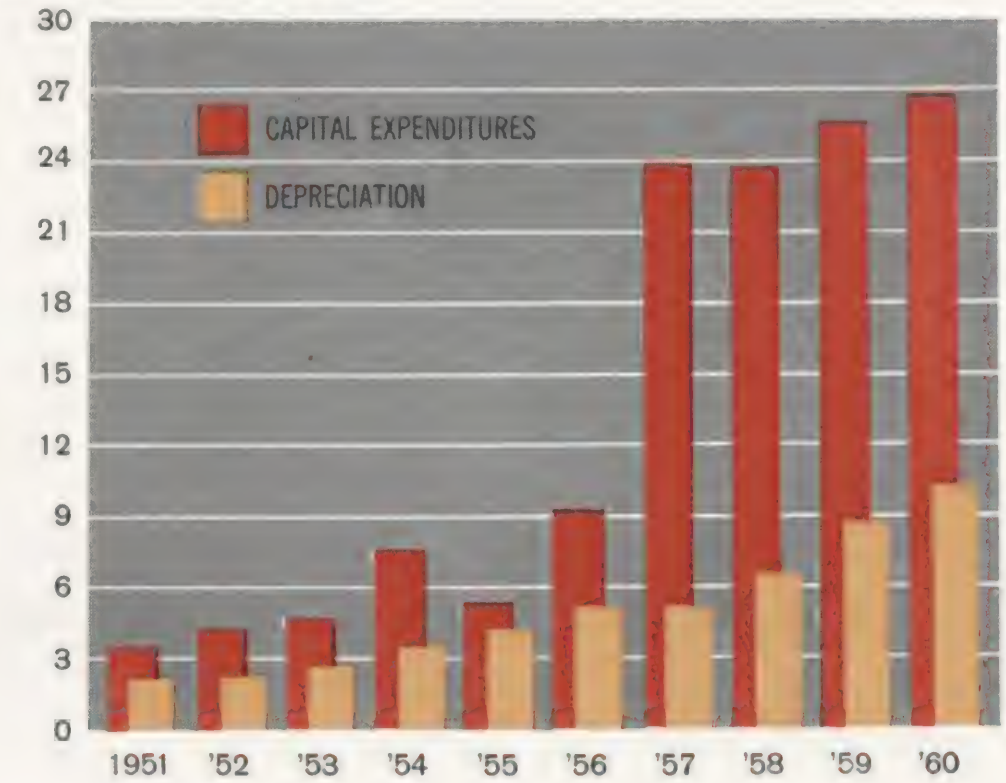
(BASED ON 20,000,000 SHARES)



EQUITY AND BORROWED FUNDS AT YEAR END



CAPITAL EXPENDITURES AND DEPRECIATION



R. J. REYNOLDS TOBACCO COMPANY

FINANCIAL POSITION DECEMBER 31, 1960 WITH

ASSETS

	1960	1959
CURRENT ASSETS:		
Cash	$ 29,049,569	$ 27,108,977
Accounts receivable from customers (less discounts)	50,704,377	44,530,465
Leaf tobacco, supplies, manufactured products, etc.—at cost (last-in, first-out basis)	743,335,117	684,507,358
TOTAL CURRENT ASSETS	823,089,063	756,146,800
REAL ESTATE, MACHINERY AND EQUIPMENT—at cost	165,396,177	140,808,663
Less allowances for depreciation	54,672,106	46,517,974
NET REAL ESTATE, MACHINERY AND EQUIPMENT	110,724,071	94,290,689
OTHER ASSETS:		
Investments in (at cost) and advances to non-consolidated foreign subsidiaries	10,889,441	—
Other investments	225,000	225,000
Brands, trade-marks and good will	1	1
Prepaid expenses and sundry receivables	2,330,838	2,689,070
TOTAL OTHER ASSETS	13,445,280	2,914,071
	$947,258,414	$853,351,560

COMPARATIVE FIGURES FOR 1959

LIABILITIES

	1960	1959
CURRENT LIABILITIES:		
Notes payable	$216,270,000	$158,150,000
Accounts payable and sundry accrued accounts	24,725,397	25,975,422
Funded debt due within one year	6,000,000	6,000,000
Federal and state taxes	78,347,516	87,618,593
TOTAL CURRENT LIABILITIES	325,342,913	277,744,015
FUNDED DEBT (NOTE A):		
2½% Promissory Notes	38,000,000	43,000,000
3% Debentures, due October 1, 1973	48,000,000	49,000,000
TOTAL FUNDED DEBT	86,000,000	92,000,000
CAPITAL AND EARNINGS RETAINED:		
Preferred Stock—Par $100		
Authorized and issued 490,000 shares 3.60% Series	49,000,000	49,000,000
Common Stock—Par $5		
Authorized 30,000,000 shares		
Issued 20,000,000 shares	100,000,000	100,000,000
	149,000,000	149,000,000
Earnings Retained for requirements of the business (Note B)	403,100,207	346,967,922
	552,100,207	495,967,922
Less cost of Preferred Stock, 3.60% Series, in Treasury (194,892 shares in 1960; 149,232 shares in 1959)	16,184,706	12,360,377
TOTAL CAPITAL AND EARNINGS RETAINED	535,915,501	483,607,545
	$947,258,414	$853,351,560

R. J. REYNOLDS TOBACCO COMPANY

STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1960—WITH COMPARATIVE FIGURES FOR 1959

	1960	1959
NET SALES	$1,418,260,858	$1,286,855,943
OTHER INCOME	335,670	277,630
TOTAL INCOME	1,418,596,528	1,287,133,573
LESS:		
Cost of goods sold, selling and general expenses, exclusive of items below	1,178,270,934	1,073,925,749
Provision for depreciation	10,078,976	8,774,477
Interest and debt expense	8,516,573	6,663,692
Provision for Federal and state taxes on income	119,670,000	107,412,000
TOTAL INCOME DEDUCTIONS	1,316,536,483	1,196,775,918
Net Earnings for year, before special item	102,060,045	
Credit resulting from settlement of income tax liabilities for prior years	3,198,466	—
NET EARNINGS	$ 105,258,511	$ 90,357,655
Dividends paid on Preferred Stock	$ 1,126,226	$ 1,280,513
NET EARNINGS APPLICABLE TO COMMON STOCK	$ 104,132,285	$ 89,077,142

NOTES TO FINANCIAL STATEMENTS—DECEMBER 31, 1960

NOTE A: The principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures are as follows: 1961-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

NOTE B: The 2½% Promissory Notes and the Indenture under which the 3% Debentures are issued contain certain restrictions as to the declaration of dividends (other than stock dividends) on the Common Stock and as to the purchase, redemption or retirement of shares of its stock. At December 31, 1960 the part of Earnings Retained not affected by these restrictions was $312,908,232.

STATEMENT OF EARNINGS RETAINED

YEAR ENDED DECEMBER 31, 1960—WITH COMPARATIVE FIGURES FOR 1959

	1960	1959
EARNINGS RETAINED for requirements of the business—at beginning of year	$346,967,922	$299,890,703
ADD:		
Net Earnings	105,258,511	90,357,655
	452,226,433	390,248,358
DEDUCT:		
Cash dividends—		
Preferred Stock, 3.60% Series	1,126,226	1,280,513
Common Stock at $2.40 per share for 1960 ($2.10 per share for 1959)	48,000,000	41,999,923
	49,126,226	43,280,436
EARNINGS RETAINED for requirements of the business—at end of year (Note B)	$403,100,207	$346,967,922

REPORT OF INDEPENDENT ACCOUNTANTS

R. J. REYNOLDS TOBACCO COMPANY, ITS DIRECTORS AND STOCKHOLDERS

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1960, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1960, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

Winston-Salem, N. C., January 27, 1961

R. J. REYNOLDS TOBACCO COMPANY

BOARD OF DIRECTORS

CHARLES H. BABCOCK
LEIGHTON H. COLEMAN
A. H. GALLOWAY
BOWMAN GRAY
S. B. HANES, JR.
KENNETH H. HOOVER
H. S. KIRK
WILLIAM R. LYBROOK
DAVID S. PEOPLES
H. H. RAMM
JOSEPH H. SHERRILL
W. S. SMITH, JR.
COLIN STOKES
CHARLES B. WADE, JR.
JOHN C. WHITAKER

OFFICERS

BOWMAN GRAY . . . . . *Chairman, Board of Directors*
H. S. KIRK . . . . . *Chairman, Executive Committee*
A. H. GALLOWAY . . . . . *President*
S. B. HANES, JR. . . . . *Executive Vice President*
H. H. RAMM . . . . . *Vice President*
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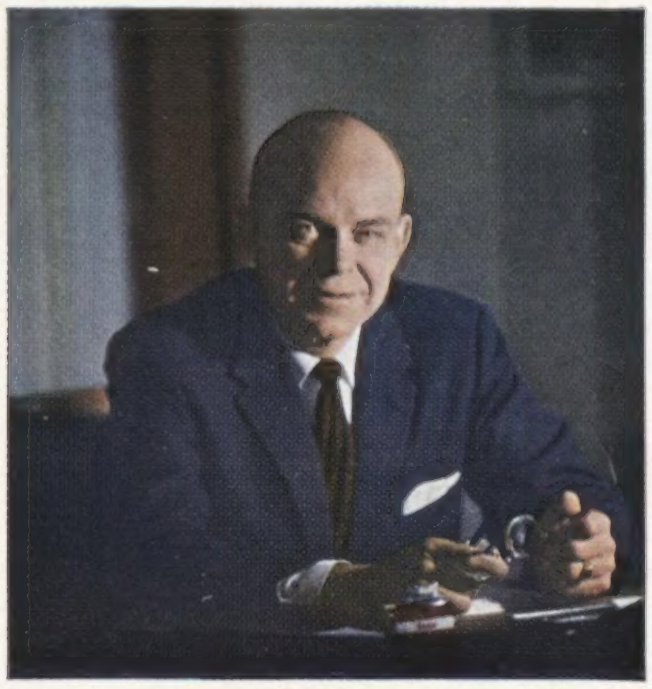

Joseph H. Sherrill

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